



A Helpful Smile In Every Aisle

August 11, 2021

Submitted via Electronic Delivery at: reg.comments@federalreserve.gov

Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

RE: Docket No. R-1748; RIN 7100-AG15

On behalf of Hy-Vee, Inc., I am submitting this letter to the Board of Governors of the Federal Reserve (the "Board") in response to the Notice of Proposed Rulemaking on Debit Card Interchange Fees and Routing issued on 7 May 2021 (the "Proposed Rule").

Hy-Vee, Inc., appreciates the opportunity to provide comment on the Proposed Rule. The increasing cost of accepting debit cards, coupled with the growing obstacles to access competitive networks, is affecting our customers and our business every day. I urge the Federal Reserve Board of Governors to take immediate action to enforce the routing competition provisions and reduce the regulated rate as required by law.

The grocery industry is highly competitive, averaging a 1% profit margin. We leverage any savings into keeping food prices low for our customers. Networks competing for both issuing banks and the retailer benefit all stakeholders in the chain, and most importantly the consumer, by helping to contain costs.

The unprecedented shift in our customers' needs and shopping habits during the COVID-19 pandemic to online shopping have remained at historically high levels. Consumers have changed their shopping behavior with a recent consumer survey reporting two-thirds of U.S. consumers now buying groceries online, and the average consumer allocating more than 20% of their grocery spend online.¹ This shift in shopping habits, along with the investment Hy-Vee has made to keep our employees and customers safe, has increased our cost of doing business, which places further strains on our ability to keep food prices low.

The Board notes in the Proposed Rule that Regulation II specifically
"...prohibits an issuer or payment card network from directly or indirectly restricting the number of payment card networks on which an electronic debit transaction may be processed to fewer than two unaffiliated networks."²

Unfortunately, as the Board further notes; single-message networks are currently processing only 6% of online debit transactions. This is a clear indicator that merchants are unable to access a second debit network when the purchase occurs online. Therefore, Hy-Vee agrees it is necessary and appropriate for the Federal Reserve to take immediate action to enforce this law.

¹ U.S. Grocery Shopper Trends 20201, FMI - The Food Industry Association

² "Debit Card Interchange Fees and Routing." Federal Register 86:91 (May 13, 2021) p. 26189.

Hy-Vee, Inc.

5820 Westown Parkway, West Des Moines, Iowa 50266

Phone: (515) 267-2800

The Board's proposed clarification recognizes the innovation in the debit space since the initial rule finalized almost a decade ago. Two examples of this innovation are the growth in online sales and the investment by the debit networks to enable PIN-less transactions. Hy-Vee strongly supports the Board proceeding with the enforcement of the debit-routing provisions to ensure our company has access to at least two unaffiliated debit networks, regardless of how or where the transaction occurs and is authenticated.

Finally, as the Board also notes, U.S. merchants paid \$24.38 billion in debit interchange fees in 2019.³ The current regulated rate for covered issuers is 21 cents plus five basis points with an additional penny for fraud adjustment. The rate has remained unadjusted since it went into effect, even though issuer costs have reduced by half and merchants are shouldering more of the fraud burden. These facts indicate that an immediate reduction in the regulated rate is reasonable.

Hy-Vee supports such reduction to bring it into alignment with the statutory requirement that is both reasonable and proportional to the issuer costs. Doing so will further encourage competition in the debit market and deliver relief to Hy-Vee and our customers so that costs can be contained.

Thank you for the opportunity to provide comments on the proposed clarifications.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Skokan", with a stylized, flowing script.

Michael Skokan
Hy-Vee, Inc.
Executive Vice President, Chief Financial Officer & Treasurer

³ 2019 Interchange Fee Revenue Covered Issuer Costs, and Covered Issuer and Merchant Fraud Losses Related to Debit Card Transactions, May 2021.